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QUALITY OF LIFE IN JAPAN: IS IT AFFLUENT OR NOT?

SUMMARY

Although Japan is ranked as one of the richest countries on a per capita national income basis, few Japanese feel that their quality of life is better than that of Americans or Europeans. When adjusted to reflect purchasing power parities, the differences in consumer prices of the respective countries, Japanese national income drops below that of the United States. Moreover, in terms of compensation for hours worked, Japanese salaried employees' hourly compensation ends up being smaller than that of their American and European counterparts since these Japanese workers typically spend more time on the job in a year than American and German workers do. A reduction of working hours to enable Japanese to have more time for leisure is being promoted by the government, labor unions and many corporate managers.

Other factors affecting the quality of life are inadequate housing and other social infrastructure, especially in the metropolitan area. The status of these structures is hardly improved despite Tokyo's current efforts to increase public works expenditures and to reform land-holding policies. Among several measures under consideration by government leaders to upgrade the social environment is one that would relocate the national capital away from the overcrowded Tokyo area.

Attitudes toward the company and toward leisure are being questioned not only by workers but by some business leaders. Many salaried workers, particularly those in large companies, so far have sacrificed their private life for the sake of the company, which, in turn, provides them with various fringe benefits. Some Japanese workers, especially in the younger generation, have begun to emphasize their desire to enjoy life in their own way, indicating more independence from the company. This younger generation's initiative, along with institutional deregulation and other reforms, could lead to fundamental changes in the employer-employee relationship and the quality of life in Japan.

International Comparison of National Income

Although not the richest country in the world, Japan ranked in the top five in 1990 with per capita national income of $19,035. This was less than the average of Switzerland, Luxembourg, Sweden and Finland, among the developed countries, but it exceeded that of all the other industrialized economies, including the United States (see Table 1).

Table 1: **Major Industrialized Countries' Per Capita National Income**

(in dollars)

Year	1985	1989	1990
Japan	$9,033 (9,926)	$18,472 (13,008)	$19,035 (14,354)
United States	13,349 (13,349)	16,704 (16,704)	17,379 (17,379)
West Germany	7,830 (9,034)	14,864 (12,036)	17,461 (12,340)
France	7,031 (8,421)	12,752 (11,112)	15,721 (n.a.)
Great Britian	6,039 (7,897)	10,820 (10,591)	12,856 (n.a.)

Note: Figures in parentheses show purchasing power converted into dollars. The exchange rates used to derive these numbers were estimated by the Ministry of Labor using statistics from the Organization for Economic Cooperation and Development and the respective countries.

Source: Ministry of Labor

As calculated by exchange rates this comparison does not necessarily reflect the actual economic living standards of any particular nation's consumers since the exchange rate fluctuates, depending on such factors as capital flows and monetary policy. After the major industrialized nations agreed in the fall of 1985 in the Plaza Accord to promote a realignment of currencies against the dollar (see *JEI Report* No. 40A, October 21, 1988) the yen strengthened against the dollar and European currencies. The Japanese currency rose to a high of nearly ¥120=$1.00 in late 1988 but then drifted downward. By 1991 an Economic Planning Agency comparison of consumer prices on selected, similar goods and services available in various national markets showed that the yen's purchasing power was considerably lower than the exchange rate value that year.[1] Although the average exchange rate in 1991 put $1.00 equivalent to about ¥134.5, the purchasing power of Japanese consumers was estimated by the EPA survey to be ¥170.2=$1.00. EPA's 1991 comparison of consumer prices in Tokyo, New York, Hamburg, London and Paris showed that New Yorkers could buy the same or similar goods and services for 21 percent less than Tokyoites spent (see Table 2).

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Table 2: **International Comparison of Consumer Prices, 1991**

(Tokyo = 100)

	New York	Hamburg	London	Paris
Overall	79	76	92	86
Goods	79	83	87	80
Food	74	71	61	57
Durables	87	107	141	118
Clothing and Footwear	67	72	81	96
Services	82	69	99	103
Rent or Mortgage* and Related Services	57	60	91	87
Other**	73	74	91	87
Electricity	83	99***	90	88
Gas	55	64***	46	65

*Excludes land and house purchases.
**Includes utilities, transportation, communications, medical services and education.
***Dusseldorf.

Source: Economic Planning Agency and Ministry of International Trade and Industry

The Organization for Economic Cooperation and Development has adjusted per capita national income figures using the purchasing power parities of industrialized countries after taking a broad benchmark survey in 1985 in which it sampled consumer prices on about 2,000 items. In its own calculations the Japanese government made technical adjustments to the OECD figures to account for inflation in the respective countries and to bring the estimates up to date.[2] As a result, the adjusted figures indicated that Japanese per capita national income in 1990 was about $3,000 less than that in America but still exceeded that of Germany by more than $2,000. (The figures in parentheses in Table 1 are per capita national income based on purchasing power parities as estimated by the OECD and Japan's Ministry of Labor.)

Some economists have suggested that the gap between the nominal exchange rate and purchasing power parities technically would be narrowed somewhat over time because the drop in prices of imported goods eventually would contribute to a decrease in consumer prices as a whole. (For an analysis of factors entering into exchange rate changes and Japanese pricing experiences, see *JEI Report* No. 43A, November 15, 1991.) Moreover, the sudden appreciation of the yen in the late 1980s did not fully offset differences in the nominal exchange rate and purchasing power parities for a variety of reasons. For example, international capital flows — the equivalent of Japan's excess savings — remained high. This kept exchange rates and purchasing power parities from reaching equality with each other.

Consumer welfare also depends on economic structural and regulatory factors that affect productivity and efficiency. For example, given the selected items listed in Table 2, the gap in land and housing rental prices between Tokyo and New York mostly followed the extraordinarily high rise in Tokyo land prices, which will be discussed below. The price difference in footwear is considered to stem from Tokyo's protection of the domestic footwear industry. Government pricing policies also influence electricity and gas fees. Inefficiencies in the agriculture sector and the distribution system arising from government control and regulation similarly prevent a reduction in the prices of goods

paid by Japanese consumers. The Large Retail Store Law, for example, until last year's amendment protected the interests of small-sized retailers over those of consumers (see *JEI Report* No. 43A, November 10, 1989).

A November 1991 survey by the Ministry of International Trade and Industry on price differentials of imported goods sold in Tokyo, New York and major European cities further pointed to inefficiencies in Japan's distribution system.[3] If there were no differences in the degree of efficiency between domestic and foreign distribution systems, exported products should be sold at a higher price in a foreign market than in the home market because of the additional transportation costs. Of 76 Japanese-manufactured goods sold in both Tokyo and New York, 17 items sold in Tokyo were more expensive than those available in New York. Conversely, of 32 American-manufactured goods, only four items sold at a higher price in New York than in Tokyo. Since more contradictions of expected pricing patterns were found among Japanese products sold in the American market than vice versa (roughly 1 in 4.5 cases compared with 1 in 8 for U.S. goods), the finding suggested that the U.S. distribution mechanism is more efficient and competitive than the Japanese system. The situation is even more striking for the pricing of 46 European-manufactured goods sold in both Tokyo and New York; 36 goods sold in Tokyo were more expensive than in New York while only seven items in New York were higher than in Tokyo.

An international comparison of productivity in various industrial sectors also seconds the view of inefficiency in Japan's agricultural, retail and wholesale sectors (see Table 3).[4] As measured by purchasing power parities in 1989, productivity per worker in the American agriculture sector was more than three times higher than that of a Japanese farmer. U.S. retail and wholesale employees ranked 1.9 times higher in productivity than their Japanese counterparts. (For a look at different evaluations of Japanese and U.S. productivity, see *JEI Report* No. 4A, January 31, 1992.) At the consumer level the relatively small difference in labor productivity between Japanese and American manufacturing workers is consistent with the gap in prices between durable consumer goods sold in Tokyo and those in New York, being not as large as the difference in food prices (Table 2).

Interestingly, in cases of monopolies, such as electric power and gas, where competition is limited and consumer prices are approved by the government based on cost plus a certain amount of profit, the Japanese power supply industry is considered much more productive than its American and European counterparts. The limited number of suppliers and the small size of the market contributes in some part to high productivity, but the ranking also could suggest that Tokyo allows energy suppliers to set relatively expensive charges in line with the government's energy security policy.

Adjusting per capita national income figures for purchasing power parities and taking into account productivity differences are still insufficient to give a complete overview of quality of life issues. When such factors as ratio of the labor force to the total population, the unemployment rate, job status, job categories or working hours are added, Japanese workers also come up short compared with American and German workers (see Table 4). Hourly compensation of productive full-time workers in the manufacturing sector in 1990, for example, shows that the average Japanese worker put in 176 more total hours than his or her American counterpart and 526 hours more than a German worker.[5] This converts to an hourly compensation of Japanese workers that is equivalent to 92 percent of American workers' nominal pay and 64 percent that of German workers. Calculated on purchasing power parities, this country's workers were paid 44 percent more per hour than their Japanese counterparts; German workers earned 47 percent more than Japanese.

In terms of job categories and the impact of taxes on take-home pay few empirical studies are available to back up the casual observations that Japanese executives are not as well off as U.S. execs. One of the analyses, a joint effort by Osaka University Professor Takao Kato and Mark Rockel of Carbon Cycle, Inc. of Maryland, indicated that the average taxable income of top businessmen in Japan, which amounted to ¥44.4 million — $186,000 at the nominal exchange rate of 1985 (¥239=$1.00) or $204,000 at the OECD-figured purchasing power parity price of 1985 (¥218=$1.00) — was less than

Table 3: **Productivity in Major Industrialized Countries Adjusted for Exchange Rates and Purchasing Power Parities**

(Japan = 100)

	United States (1989)		West Germany (1988)		France (1989)		Great Britain (1987)	
	Exchange Rate ¥138=$1.00	Purchasing Power Parity ¥204=$1.00	Exchange Rate ¥73=DM1	Purchasing Power Parity ¥85.3=DM1	Exchange Rate ¥21.6=F1	Purchasing Power Parity ¥27.3=F1	Exchange Rate ¥236=£1	Purchasing Power Parity ¥364=£1
GDP per Worker	95	141	93	108	95	120	68	105
GDP per Working Hours	109	162	119	139	116	146	n.a.	n.a.
Manufacturing Output per Worker	80	118	77	90	80	101	52	81
Manufacturing Output per Working Hours	88	130	103	120	105	132	58	90
Agriculture, Forestry and Fishery Output per Worker	212	313	95	111	153	194	123	189
Mining Output per Worker	102	151	27	32	48	60	125	193
Utilities Supply per Worker	46	68	45	53	35	44	23	35
Construction Output per Worker	68	100	73	84	67	85	62	95
Retail and Wholesale Trade Output per Worker	129	190	107	125	153	193	71	109
Transportation and Communications Output Per Worker	93	138	83	97	75	95	62	96

Source: Estimated by the Ministry of Labor using Organization for Economic Cooperation and Development data and respective countries' statistics. Cited in *Shukan Toyo Keizai*, March 28, 1992.

Table 4: **Purchasing Power of Production Workers in Major Industrialized Countries, 1990**

	Japan	United States	West Germany
Scheduled Hours Worked	1,905	1,756	1,499
Overtime Hours Worked	219	192	99
Total Hours Worked	2,124	1,948	1,598
Hourly Compensation	¥1,555	¥1,688	¥2,419
Exchange Rate*	$10.73	$11.65	$16.71
Index	100	109	156
Purchasing Power Parity Basis	100	144	147

*¥144.79=$1.00.

Source: Estimated by Ministry of Labor using respective countries' statistics. Cited in *Shukan Toyo Keizai*, March 28, 1992.

30 percent of the average income of American chief executives (estimated at $645,000 as of 1986).[6] Their study analyzed salaries of 599 chief corporate executives of major Japanese companies in 1985 and 506 American chief executive officers in 1986.

Moreover, the upper level income tax in Japan is heavier than the upper level U.S. tax rate. According to Japan's current five-bracket tax table, the marginal tax rate reaches the highest level of 50 percent for taxable income greater than ¥20 million ($148,148 at ¥135=$1.00).[7] In this country a married person filing jointly with more than $82,150 in taxable income pays a top marginal rate of 31 percent. A married person filing jointly with taxable income of $500,000, for example, would pay only $148,116 in U.S. federal income taxes but in the equivalent situation would pay $221,943 in Japanese national income taxes. Without even considering salary differentials, the after-tax comparison indicates an even larger gap between Japanese and American corporate executives.

Housing Conditions

The land speculation boom in the late 1980s drove up costs for residential and commercial land by an average 187 percent and 320 percent, respectively, based on price changes in Tokyo between 1983 and 1991. These extraordinary rises in land prices, particularly in metropolitan areas, created a huge asset gap between the haves and the have-nots. Many young Japanese living in large cities, who have no hope of inheriting land, are finding home ownership a remote possibility because of the speculation boom. On top of that, the average Tokyo apartment runs about double the charge for a New York apartment (Table 2). The consumer price index, one of the critical components from which purchasing power parities are derived, includes rents and land leases but not the cost of buying a home.

In an effort to determine what land prices might have been without the speculative bubble, the Economic Planning Agency conducted a study in which it assumed that the theoretical land price should be correlated to variations in rent and long-term interest rates.[8] The gap between the actual and the theoretical land prices had been relatively small until 1986. For example, using 1983 as a base year, the theoretical price index for commercial land in Tokyo in 1971 was 0.30 while the actual land price was 0.31. The residential land price index was measured theoretically as 0.40 and actually as 0.33 that same year. But in 1991 the theoretical land price was calculated as 2.39, or 139 percent higher than the 1983 prices, in Tokyo's commercial areas and as 1.31, or barely 31 percent higher, in the residential areas. (The actual prices were 320 percent and 187 percent higher, respectively.) EPA's analysis indicates that between 1983 and 1991 the actual increase in the cost of residential land was almost six times higher than the theoretically calculated gain.

The average house sales price in the Tokyo area — figured by the Ministry of Construction in 1988 at ¥59.3 million ($463,000 at the 1988 average rate of ¥128=$1.00) — was equivalent to 8.7 times the annual average income of a householder and family. Five years earlier the average purchasing price in Tokyo was 4.84 times the average householder's annual income. On a nationwide basis the ratio of house sales prices to the average family's income increased 4.02 times to 5.72 times during the same five-year period. In 1988 the average nationwide house sales prices was ¥35.5 million ($277,000).[9] It is worth noting that old houses are rarely traded in Japan, where a house might be torn down so that land can be sold unencumbered.

Both the average house sales price in Japan and the sales price as a percentage of annual family income exceeded the corresponding figures reported in this country. Department of Housing and Urban Development statistics for 1988 listed this country's median sales price of new privately owned single-family houses at $112,500, equivalent to 3.09 times the median annual income of families headed by a married couple.[10] The median sales price for a single-family home, including both newly built and old houses, was $89,300 that same year, according to the National Association of Realtors, or just 2.45 times an average family's annual income.[11] The median house sales price in the greater New York area (Northern New Jersey, Long Island and Connecticut) was $183,800. Since the average income in the New York area is estimated to be about 34 percent higher than the national average, it follows that the 1988 house sales price in the New York area was almost 3.8 times larger than the annual family income of an average New Yorker. In addition to this country's housing being more affordable on average, a homebuyer gets more for the price here, since the average floor space per person runs about 650 square feet — more than 2.4 times greater than the Japanese average.[12]

The jump in Japanese housing prices has meant that only a limited number of people, those with sufficient savings or other assets, can afford to buy a house. The ratio of personal funds used to buy a home in the Tokyo area increased from 50.9 percent in 1984 to 70.5 percent in 1989.[13] Despite this increase, housing loans continued to be much in demand since the absolute increase in the cost of a house exceeded the increase in personal resources. A Management and Coordination Agency survey of families who purchased a house within the previous five years suggests that families in which the householder was between 30 to 34 years old as of 1989 owed, on the average, 2.08 times their annual income on outstanding housing loans; the same figure in 1984 had been 1.99.[14]

As in this country a majority of Japanese own their own home. According to a Ministry of Labor study on home ownership ratios, 61.3 percent of Japanese families in 1988 owned their houses, slightly lower than in the United States (63.5 percent in 1985) but significantly higher than the French (50.7 percent in 1982) and the West Germans (40.1 percent in 1982).[15] The relatively high ratio of home ownership in Japan stems in some part from the fact that few rental houses of good quality are available because many potential landlords prefer to avoid being subject to the Land Lease and House Lease Laws, which very much protect tenant rights — despite a recent amendment initially drafted to soften such protection (see *JEI Report* No. 38B, October 11, 1991).

Owning a house so far has been regarded as one of the major goals of many salaried workers. In addition to benefits derived from having equity in a home, owners generally enjoy nearly a third more space in their home than renters do. A 1988 survey by the Management and Coordination Agency found that the nationwide average floor space for owned homes was 116.78 square meters (1,256 square feet) and the average in the Tokyo area was 97.21 square meters (1,045 square feet); floor space in rental houses, however, averaged nationwide at 44.27 square meters (476 square feet) and in Tokyo at 37.98 square meters (408 square feet).[16]

The Management and Coordination Agency survey also showed that more than 70 percent of salaried workers over age 45 owned their home in 1988 while barely 13.7 percent of the generation aged 30 and younger owned a house. This suggests that the average salaried worker purchases a house between the ages of 30 and 45 or so. The late 1980s speculative land boom may have been a major factor in the drop in the ownership ratio, especially among those in their 30s. Between 1983

and 1988 there was little change in the house ownership ratio for workers 45 years old and older. Among workers aged 30 to 34, however, only 36.3 percent owned a house in 1988 although 43.3 percent in that age group owned a house in 1983. For workers between the ages of 35 and 39, the ratio of ownership dropped from 58.0 percent to 54.7 percent during the same five-year period.[17]

Although those who bought their house before the early 1980s benefited from the recent hike in land prices, many younger workers living in Tokyo and other major cities — particularly those who moved from the countryside and have no expectation of inheriting land or a house from their parents — are disappointed and even frustrated by the increasing gap between the haves and the have-nots. A nationwide poll by the *Yomiuri Shimbun* in April this year indicated that only 38 percent of workers under age 29 regarded owning a house as a main goal of their life; a majority of workers over age 40, most of them already homeowners, continued to list this as a major goal.[18]

For those who have not abandoned the vision of home ownership a smaller house or a house located farther from his or her office are two ways of trying to offset the higher purchase prices. One indicator of the smaller lot sizes being purchased is that those who acquired public housing loans in 1988 bought on average 131 square meters (1,408 square feet), or 78 percent of the official standard lot size used for evaluating loan applications; the standard lot size, as calculated by earlier, actual purchases, runs about 167 square meters (1,795 square feet).[19]

A private housing developers' organization provides evidence that more new homes are being built farther from the center of Tokyo. The group's survey noted that newly built houses more than 50 kilometers (31 miles) from the center of Tokyo were only 34.5 percent of all new homes built in 1984 but formed 53.2 percent of all new 1989 houses.[20] A one-way commute for those living more than 50 kilometers from work usually takes more than one-and-a-half hours.

The commute, itself, is associated with a less-than-optimum quality of life. Most commuters in the Tokyo area use a commuter train rather than a personal car. During rush hour commuting trains often are jammed with passengers; some estimates figure passengers outnumber seats and straps by a little less than 3 to 1.[21] A newly designed commuting car, in fact, even eliminates passengers' seats. Long, crowded commutes not only reduce workers' leisure time but make them exhausted as well by the time they arrive at work or home.

Leisure and Limited Public Infrastructure

Long working hours and lengthy commutes mean that the average male salaried worker aged 40 to 60 living in the Tokyo area has only about 163 minutes of free time a day on weekdays; those living in rural areas have about 192 minutes, according to a 1986 Management and Coordination Agency survey. On weekends Tokyo-area workers spend 481 minutes a day in leisure pursuits, about an hour more than workers in the countryside.[22] The fairly recent implementation of a five-day workweek has had more widespread application in larger cities than in rural areas where the number of people engaged in time-consuming agricultural work skews general comparisons. Respondents to the survey said they spent about half their weekends watching television or listening to music, about one-fourth the time resting and the remainder on more active pursuits.

Another nationwide survey by the Management and Coordination Agency gained responses in 1988 on the use of leisure time but also asked why many salaried workers engaged in only limited outdoor activities.[23] About 38.4 percent of all respondents pointed to the scarce amount of free time on weekdays, 27.6 percent complained about too few holidays and 29.3 percent mentioned the difficulties they encounter in taking a long vacation. Also a factor for 34.2 percent of the respondents was a lack of sufficient money for leisure activities. This financial constraint most likely is related to the fact that many householders in Japan, particularly those living in the Tokyo area, have to save a significant portion of their income to eventually buy a house or to repay a housing loan on an already-purchased model.

Beyond the perception of too little money and too little time was a complaint by 13.7 percent of the respondents about the limited number of entertainment facilities. The lack of public entertainment facilities in residential areas is well-documented in Japan. Public parks, for example, provide an average space per person in Tokyo's metropolitan district as of 1990 of just 2.42 square meters (26 square feet) while a New Yorker in 1989 had 155 square feet and a Washingtonian enjoyed nearly 500 square feet, according to Ministry of Construction estimates. Publicly operated tennis courts, for which a reasonable fee is charged, made up only 32 percent of the total tennis facilities in Japan as of 1986. Public golf courses amounted in the same year to as few as 7 percent of the total.[24] Japanese wanting to cruise open highways usually found traffic congestion; Japan's super-highway road network per thousand vehicles in 1990 averaged just 88 kilometers (55 miles), while this country's equivalent figure, not considering the numbers of lanes, was 283 miles in 1988.[25] Furthermore, driving for pleasure is not cheap in Japan since tolls are charged on all Japan's super-highways and gasoline costs in Japan are about four times higher than in America.

Government Efforts to Improve Quality of Life

The government has initiated several policy measures to improve the quality of life in Japan. Following the 1989-90 Structural Impediments Initiative talks between Tokyo and Washington, the Japanese government promised to spend about ¥430 trillion ($3.2 trillion at ¥135=$1.00) on public works between FY 1991 and FY 2000; of the total, 60 percent would be allocated for improvements of life-related infrastructure, such as sewage facilities, garbage recycling centers, housing, transportation, parks, hospitals and schools (see *JEI Report* No. 39A, October 12, 1990). SII also focused on Japan's land reforms and distribution system. Tokyo has implemented a series of land-reform measures, including an introduction of a new land-holding tax and an amendment of the Land Lease and House Lease Laws. In an attempt to halt the speculation driving up prices the government also has urged that bank loans for housing be restricted (see *JEI Reports* No. 38B, October 11, 1991, and No. 5B, February 8, 1991). Although land prices have begun to moderate or, in some cases, decline, a further drop in prices remains to be seen.

Among other quality-of-life adjustments undertaken by Tokyo to rationalize the retail and wholesale trade and the distribution systems that supply them are amendments to the Large Retail Store Law and the revision of antimonopoly regulations to eliminate certain exemptions. The gap between productivity levels of Japan and the other major industrial economies in these sectors is expected to decline as the distribution system is liberalized, with commensurate reductions in prices for consumers.

The Government Administrative Reform Council in July 1991 addressed the issue of Tokyo's overcrowding problem and recommended that the central government consider transferring more power to local governments to help achieve more balanced growth in Japan's social and economic development (see *JEI Report* No. 41A, November 1, 1991). Moreover, a relocation of the national capital is under study by Diet members as well as government officials (see *JEI Report* No. 9B, March 6, 1992).

In a new five-year economic plan, being prepared under an initiative of Prime Minister Kiichi Miyazawa, the Economic Council hopes to emphasize ways to improve the quality of life in Japan. Among several proposals drafted by the advisory task force is one urging a future goal of 1,800 total working hours a year, including both scheduled and unscheduled work hours.

The Economic Council also has ideas on making housing more affordable. For example, it has suggested that the price of land with a newly built house in the Tokyo area should be within five times the annual income for salaried workers; no specific year or implementation plan has been proposed for this goal. The council also unveiled a guideline for new housing projects in the Tokyo area. Of 4.3 million houses eyed for construction in the area up to the year 2000, there would be an effort to build about half, or 2.6 million, within 30 kilometers (18.6 miles) of downtown Tokyo. Other targets, such as increased park space in urban areas, expanded access to sewage systems, easing of

crowded conditions on commuting trains and increased construction of highways are also policy goals. The new economic plan, to be formally delivered in June, also is expected to urge Tokyo to proceed with the liberalization of Japan's market by implementing the measures that Tokyo agreed to in the SII talks.

Quality of Life and Company/Employee Relations

Employee attitudes toward the company are key to a review of how the Japanese value life. The evolution of work and play habits in Tokyo or other large cities corresponds to motivations linked to a company's promotion and related business practices, such as career-long employment and seniority-based pay scales. A majority of the employees hired by large corporations are recruited just after they graduate from a university or a high school. Those in the career track are expected to continue to work until they retire around age 60 or so. Instead of layoffs when a reduction in force might be considered necessary, corporate managers usually send their employees to affiliated firms. Under the seniority system, basic annual salary increases correspond to years worked and, in principle, a senior person is paid more than younger workers. Job promotions, which also are tied to the seniority-based, career-long employment system, offer higher status, but the total salary of managers or other titled officers is not very much higher than nontitled workers in the same age group. The title represents not only the degree of power or reputation in the company but social status as well. Since basically all employees at every stage of employment have the same opportunities for promotion, salaried workers — unless they give up the goal of being promoted — face severe competition from their colleagues as they climb their company's career ladder. In addition to weighing an employee's contribution to sales and profits, an employer often considers the extent of extra working hours (including weekends) to evaluate an employee's loyalty toward the company, one of the considerations for a promotion. The competition for promotions reportedly results in some workers not officially recording extra hours and working overtime without compensation.

Despite not being based on any written contract nor widely applied in many small- and medium-sized companies (especially those located outside of large cities), these expectations for promotion and seniority benefits are common among salaried workers in large companies located in large cities. A survey by Keidanren (Japan Federation of Economic Organizations) of 842 corporate executives and managers in big Japanese corporations asked whether competitive promotion practices contributed to a company's overall competitiveness.[26] Of the chairmen and presidents who responded, 73 percent said yes, while 60 percent of the managers saw merit in competition for promotion. In response to a question about what they saw as the prime motivating factor for employees, 37 percent named the job itself, 31 percent regarded the idea of a promotion as the best incentive and 27 percent pointed to the chance of improved income possibilities.

Various other incentives that companies use to retain employees and promote loyalty include tying retirement funds or pensions to the length of employment and providing fringe benefits, such as help with commuting expenses, company-owned apartments for employees, subsidies for housing expenses for employees (including housing loans at a discounted rate), and company-paid travel and entertainment facilities (like resorts or sports facilities). Employees accustomed to these company benefits do not have to worry about finding entertainment opportunities but may not have much time to spend on leisure. The benefits have some drawbacks for employees who might want to seek work elsewhere, however. A company-provided housing loan, for example, compels employees to stay in the company until the loan is paid up. If an employee borrows a large amount to buy a house, most of the repayment schedule is calculated to coincide with his or her retirement.

Large companies provide more of such fringe benefits than smaller firms. According to a Ministry of Finance survey on what companies spend for employees' welfare as a proportion of total personnel costs, companies with over ¥1 billion ($7.4 million) in capital in 1988, on average, spent 16.8 percent of personnel costs for employees' welfare, while companies with capital of less than ¥100 million ($741,000) spent only 9.3 percent.[27] A Labor Ministry survey for the same year indicated that

large firms with more than 5,000 employees paid each employee five times more in retirement benefits, 12 times more for housing-related benefits and twice what companies with 30 to 99 workers paid for entertainment and sports activities for their employees.[28] (For a look at various job-related benefits in Japan, see *JEI Report* No. 40A, October 19, 1990.) Since the opportunities to be recruited by larger companies are much greater for university graduates, especially those from universities with the best reputations in Tokyo or the Osaka, Kyoto and Kobe areas, many students from rural Japan traditionally have seen benefits in moving to these large cities to study in hopes of getting work with the larger companies.

Challenges to the traditional employment patterns have begun to arise, although the movement is still small. Some workers, especially those in the younger generation, have assessed the implication of traditional employee/company relations and have put more value on their private lives than on their jobs. For these people the usual company incentives no longer are as attractive. Company-owned apartments or resorts, for example, are considered akin to being at work, since workers hardly can relax around a boss or colleagues at these facilities despite the low cost of using them. Younger workers, especially female employees, often prefer to travel abroad on their own agenda and at their own expense rather than play tennis with colleagues or golf with business customers even if the company covers these costs. Moreover, the high rise in land prices has resulted in fewer members of the younger generation expecting to own a house. Company-provided housing loans, therefore, carry fewer attractions for these workers.

As the social benefits and conditions of employment change in the eyes of the employee, the incentive to remain with the same firm throughout a career weakens. There are more indications that younger Japanese are not hesitating to change jobs if they are not satisfied. The Management and Coordination Agency's 1988 survey on the younger generation's attitudes toward work and jobs suggested that only 26.2 percent of the respondents wanted to continue in the same job, 25.3 percent would continue in the job although they sometimes felt like changing, 27.9 percent of the respondents would change employment if they had a chance, and 5.3 percent expressly wanted a new job (15.6 percent did not answer the question).[29] MCA also referred to a similar survey in this country in which 57.6 percent of young American workers said they wanted to continue in their job, 7.4 percent would continue in the job although they sometimes felt like changing, 18.5 percent would change jobs if they had a chance and 16.5 percent wanted a definite change in jobs. The actual job-changing ratio for all young male Japanese workers aged 20 to 29 in 1989 was 17.5 percent, a much lower ratio than they had expressed in the MCA survey a year earlier.[30]

Because of Japan's declining birth rate and the expected long-term shortage of younger workers, labor unions and corporate managers have begun to respond seriously to younger workers' attitudes. One common target is a reduction of working hours, although unions and managers differ on their preferred range of reduction. Some companies have introduced an additional period of paid holidays, called refreshment holidays, for employees who have worked 15 or 20 years. Flextime working hours and permission to work at home also have been introduced by some companies to let workers avoid rush-hour commuting. Some progressive companies are allowing employees to take paid leave so they can engage in volunteer activities for a certain period. Moreover, some firms have undertaken adjustments to their current payment system, which consists of a monthly fixed income and usually a bonus twice a year plus overtime compensation. By changing to a fixed annual salary these firms hope their employees will feel more free to concentrate on longer term results rather than worrying about daily work hours; as a result, the workers with annual salaries will be able to allocate their time more flexibly than ordinary workers.

Sony Corp. chairman Akio Morita recognized the importance of employer/employee relations in quality of life issues in a February 1992 article of the respected opinion magazine *Bungei Shunju*. He recommended that Japanese corporate managers review the relationship between the company and its employees by taking more account of each employee's individual values and expectations. More concretely he proposed a reduction of working hours and an increase in employee salary levels to

those of their American and European counterparts (see *JEI Report* No. 17A, May 1, 1992). Since the lifestyle of Japanese workers to date has been very much linked with attitudes towards their employer, a change in corporate management is a critical factor if the quality of Japanese life is to be improved along the lines associated with other countries' advanced standard of living.

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Notes

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[2]Ministry of Labor, *Rodo Hakusho 1990* (White Paper on Labor), (Tokyo: Nippon Rodo Kenkyu Kiko, 1990), pp. 129-130.

[3]Ministry of International Trade and Industry, "Nai-gai-kakaku Hikaku-chosa-kekka ni tsuite (Findings on Price Differences between Domestic and Overseas Markets)," May 26, 1992.

[4]"Nihon no Chingin wa Yappari Hikui (Japanese Workers' Wages Still Remain at Low Levels)," *Shukan Toyo Keizai*, March 28, 1992.

[5]*Ibid.*

[6]Takao Kato and Mark Rockel, "Experiences, Credentials and U.S. Managerial Markets," in *Journal of the Japanese and International Economies*, VI, March 1992, pp. 30-51.

[7]Ministry of Finance, *Zeiho Binnan* (A Guidebook on Taxation). (Tokyo: Zeimu Kenkyukai, 1991).

[8]Economic Planning Agency, *Keizai Hakusho 1990* (Economic White Paper), (Tokyo: Okurasho Insatsu Kyoku, 1990), pp. 147-161.

[9]Ministry of Labor, *op. cit.*, p. 134.

[10]Bureau of Census, *Statistical Abstract of the United States, 1991*, (Washington, D.C.: Government Printing Office, 1991), p. 450 and p. 722.

[11]*Ibid.*, p. 444 and p. 723.

[12]Ministry of Labor, *op. cit.*, p. 447.

[13]Ministry of Labor, *op. cit.*, p. 450.

[14]Ministry of Labor, *op. cit.*, p. 451.

[15]Ministry of Labor, *op. cit.*, p. 448.

[16]Ministry of Labor, *op. cit.*, p. 211.

[17]Ministry of Labor, *op. cit.*, p. 449.

[18]"Jutaku Tochi Mondai, Honsha Zenkoku Yoron Chosa (*Yomiuri Shimbun* Nationwide Poll on Housing and Land Problems)" *Yomiuri Shimbun*, May 14, 1992, p. 23.

[19]Economic Planning Agency, *Kokumin Keizai Hakusho 1990* (White Paper on People's Life), (Tokyo: Okurasho Insatsu Kyoku, 1990), p. 81.

[20]Ministry of Labor, *op. cit.*, p. 206.

[21]Economic Planning Agency, *Kokumin Keizai Hakusho 1991* (White Paper on People's Life), (Tokyo: Okurasho Insatsu Kyoku, 1991), p. 142.

[22]*Ibid.*, p. 217.

[23]Ministry of Labor, *op. cit.*, p. 253.

[24]Ministry of Labor, *op. cit.*, p. 259.

[25]International Road Federation, *World Road Statistics*, (Geneva, Switzerland, 1990).

[26]Keidanren, "Kaisha no Rodo to Jinji: Eraku-naru-tameni Hataraku (Working and Personnel Relations in Japanese Companies: Work in order to be promoted) *Gekkan Keidanren*, May 1992, pp. 40-45.

[27]Ministry of Labor, *op. cit.*, p. 156.

[28]Ministry of Labor, *op. cit.*, p. 184.

[29]Ministry of Labor, *op. cit.*, pp. 145-147.

[30]Ministry of Labor, *Rodo Hakusho 1991* (White Paper on Labor), (Tokyo: Nippon Rodo Kenkyu Kiko, 1991), p. 183.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.